Agglomeration and firm performance: who benefits from Marshallian effects?
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Abstract

The study integrates economic geography with organization theory in order to shed light on the importance of agglomerations on firms innovative outcome. Beyond the traditional perspective of assessing the agglomeration or cluster effect just comparing cluster firms with non-cluster ones in the same industry, this paper explores the moderating role of localization externalities on firms innovation activity. Based on data from 6,697 firms, after assembling different micro-level and regional data, the results show that Marshallian or localization externalities, that is, geographic proximity of industry, measured by location quotients at 2 digit NACE-93 level, positively impacts on a firm innovative outcome and shapes the way a firm combines its external and internal sources of knowledge. A firm's investment in absorptive capacity is positively related to the existence of localization externalities, and also moderates positively the access to external knowledge. Put differently, ceteris paribus, the effect on innovation from complementary combination of internal and external sources of knowledge is positively moderated by the existence of localization externalities. Strong evidence indicates that firms benefit asymmetrically from agglomerations.